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SUBJECT: CHAD: WORLD BANK VIEWS ON EVE OF MULTIDONOR
MEETING

11. (SBU) SUMMARY: On the eve of the multidonor meeting in Ndjamena, World Bank experts assess that Chad's poverty indicators are headed downward, despite a 2007 spike in oil revenues. With most of its oil revenues consumed by military expenditures already in the first quarter of 2007, Chad is far from meeting the goal established with the World Bank in July 2006 of 70 percent spending (all revenue sources) on priority sectors. The World Bank hopes to focus its present discussions in Chad on getting the government to rein in expenditures and obey the Minister of Finance, who the World Bank believes has a good grasp on revenues and what needs to be done to right the expenditure hemorrhage. The greatest challenge to rationalizing spending lies in the military domain, but the military's demands are hard to foresee and evaluate in a fluid crisis. Oil revenues will plummet next year, according to World Bank projections, for reasons having less to do with oil production than the vagaries of payment schedules. END SUMMARY

World Bank's Objectives for Multidonor Mission

12. In a meeting with the Ambassador on the eve of a series of multidonor meetings which begin in Ndjamena on June 12, World Bank oil expert Marie-Francoise Marie Nelly and Resident Representative Geoffrey Bergen said that indicators of Chad's standard of living were pointing downward. Chad was not remotely meeting its undertaking with the World Bank in July 2006 to allocate 70 percent of all budgetary resources to priority spending in 2007.

13. Bergen said that the World Bank had pondered the appropriateness and feasibility of delving into Chad's military expenditures, but it had decided that it was essential to make the attempt. Efficiency was as much of an issue as size of military purchases. For example, were tanks a sensible purchase if they were used as artillery and there was no adequate maintenance program? Meanwhile, salary increases, as demanded by the unions, were sensible in principle, but this year's money had already been spent on the military.

14. The bottom line for the multidonor mission, Bergen continued, was to help the Minister of Finance, Abbas Mahamat Tolli. Tolli was very frustrated. Other ministers (not just officials in charge of the military) were off the

reservation, spending in an off-budget, unauthorized way. The World Bank's concept for the multidonor mission was an in-depth series of seminars roping in all the ministers, led by Tolli and the World Bank. The objective was to outline concrete measures for spending in each sector and to convince the government of the necessity for discipline. In early July, the new World Bank vice president for Africa would hopefully seal the deal with President Deby. There would be no worthwhile deal without Deby.

¶5. Marie Nelly said that the World Bank could not just pull out of Chad. If the World Bank were not present in Chad, its increasingly impoverished citizens would be the ones to pay the price. She said that oil revenues would plummet in 2008. Oil revenues were 1.2 billion dollars in 2007 and would fall to 460 million or even 380 million dollars in 2008 -- far less than half of 2007's oil revenues. The reason had to do largely with overpayment in 2007, which had seen a late payment of tax from 2006 and an early payment from 2008. The good news was that the oil revenues flowed into a single account.

¶6. Marie Nelly said that, according to the Ministry of Planning, salaries consumed 90 percent of revenues. The unions' demand of a 300-percent raise was, therefore, completely unsustainable. Bergen added that the fiscal implications even of the proffered 15-percent raise were serious, at 38 million dollars. However, that amount was only half of the cost of all government travel. Moreover, an audit of the civil-service payroll would probably show that 20-25 percent of it was fraudulent. The money could be found but such cost-cutting was not necessarily politically doable.

Military Conundrum

¶7. Marie Nelly said that at the World Bank spring meetings, the Chadian representative had indicated that Chad had already made extraordinary military expenditures of 160 million dollars in the first quarter of the year. The amount that had been budgeted for such expenditures for the entire year had been 42 million dollars. The amount expended did not include military salaries or the costs of integrating the rebel faction FUC. It was nearly equal to the entire amount of extraordinary military expenditures for 2006 -- 172 million dollars -- which had already been a high number. It was fair to expect that the 160 million would be far exceeded in the last three quarters.

¶8. Marie Nelly acknowledged that the issue of military expenditures would be extremely difficult to assess. In the end, it was most essential simply to know what would be left over for priority spending. She requested the Ambassador's views on the question of whether the security situation was calmer and how that calm would reflect on military spending. The Ambassador said he did not see military spending letting up any time soon. If the present calm prevailed for any length of time, there would be less pressure for military spending, but there remained a chance of rebel attacks in the East at any time. If, following the French foreign minister's visit to Chad and an eventual visit of Deby to Paris, the French became more involved militarily, the military demands on Chad would be reduced.

¶9. Marie Nelly noted that the president of the World Bank had called upon the donors to commit military forces to peace operations in Chad, as essential to freeing up Chad's resources for priority spending. The Ambassador did not anticipate direct U.S. support for the Chadian military, beyond the existing counter-terrorism training effort, but peacekeeping operations could be another matter. Marie Nelly regretted that the effort by the French ambassador the previous year to commence a holistic reform of the security sector had been put on hold by the crisis in the East.

Regional Project

¶10. Marie Nelly urged American support of a 700-million-dollar regional project to rehabilitate roads connecting Douala with Bangui and Ndjamena. The project, she said, fit squarely in the priority sector; it was a part of the solution, not the problem. However, the United States Executive Director was seeking to postpone the Board meeting to approve this project June 21 until after seeing the results of the multidonor mission to Chad.

Minister of Finance is the Man on the Spot

¶11. In a subsequent meeting with the Ambassador, Finance Minister Tolli said that he was in complete agreement with the World Bank and IMF on steps that needed to be taken. Military expenditures had been much higher than projected. To the Ambassador's question whether the minister had a grasp of military expenditures, he said that he did have such a grasp, but the greater problem was the military's plans for future spending and how to put a cap on it. War was unforeseeable, as the United States knew first-hand in Iraq, but the military needed to follow rules in its expenditures, to minimize waste, and to comprehend the whole budgetary picture.

¶12. Tolli said that he hoped that military officials would be in the coming meetings with other ministers. All ministers needed to understand that there was going to be a serious diminution of revenues in 2008. The oil market would go down, the level of production would go down, taxes and revenues in particular would go down. The multidonor mission needed to work with the ministers to underline the necessity of transparency and to reevaluate priority needs. It was not fair for some ministers to following procedures and others not to. Finally, Tolli hoped that the World Bank, IMF, and donors would help in the effort to reduce the unions' zeal in the present lengthening strike.

IMF Comments

¶13. The IMF resident representative Wayne Camard, in a separate conversation with poloff, offered a different view on a few points. On the strike, he said, the unions had in fact lowered their demand to a 200-percent salary increase. Their demand was not as outlandish as it might seem, he said, since a 200-percent increase would just about bring Chadian civil servants in line with what they had been paid in 1979, adjusted for inflation. By the same token, it was equally true that Chad could not afford it.

¶14. Camard said that Chadian military expenditures had not been unreasonable. Chad had faced, and continued to face, a formidable military challenge in the East. It would not be able to cope with rebels using four-wheel-drive vehicles if all it had was four-wheel-drive vehicles. It had to have helicopters, and it had bought those on the cheap from eastern Europe. The only unreasonable military expense on the horizon, in Camard's view, was the request for C-130s.

¶15. On a final note, Camard said that it was important not to lose sight of all that the World Bank had accomplished in Chad. The World Bank had failed to hold Chad to the standard it had sought, but it had nonetheless promoted oil-revenue transparency. The oil money went into an account and the Minister of Finance knew what the revenues were. This transparency of revenues was a step forward compared to other oil-producing countries in Africa.

WALL